

FISCAL YEAR 2013 - 2014 EXECUTIVE BUDGET RECOMMENDATION SUMMARY

The full proposed budget document is available on the
City's website, www.lansingmi.gov



VIRG BERNERO, MAYOR

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Fiscal Year 2014 Proposed Budget Overview

The FY 2014 budget is proposed in another year of financial challenges. Cities across the state continue to struggle to maintain services for residents. Simply stated, the funding model for Michigan cities is broken. Cities are limited in their ability to raise revenues, the theory being that revenue sharing from the state would offset that need. Yet over the past decade, revenue sharing for municipalities has been reduced drastically. Lansing is currently receiving \$8 million less annually than it did in 2001, when revenue sharing cuts began. Over the past decade, that has amounted to a cumulative loss of over \$62 million for the city.

The onset of the Great Recession impacted the City in several ways. First, the 2008 stock market crash added significantly to the City's pension costs. It has impacted all three of the City's major General Fund revenues sources: income taxes, state revenue sharing, and property taxes. Over the past four years, the city has seen an \$8 million decline in non-dedicated property tax revenues. Thanks to the voter-approved dedicated millage passage in November, 2011 for police, fire, and roads, the city has been able to mitigate some of this challenge.

The millage proposal and passage was not requested lightly. The city has reduced its budget by over \$60 million over the past several years (see page 4 for a list of those measures). However, the millage and these measures are not enough. As evidenced by fiscal challenges faced by cities across the state, we need to continue to restructure and change the way we do business in order to not only survive, but to thrive.

For this reason, last fall Mayor Bernero appointed a Financial Health Team composed of area business and community leaders to assess the city's financial challenges and to make recommendations, both in the near and long-term. Last week, the Financial Health Team issued its report and recommendations. The report is available on the City's website at www.lansingmi.gov.

Fiscal Year 2014

The FY 2014, citywide proposed budget is \$191.5 million, a 1.6% increase over the City's FY 2013 budget. The reason for that increase is strategic investments in road infrastructure, beyond the voter-approved millage. The City's FY 2014 General Fund budget is \$112.0 million, a mere \$100,000 more than FY 2013. In order to arrive at this budget proposal, more tough choices needed to be made. The FY 2014 budget includes further internal reorganizations and employee healthcare concessions.

This budget also proposes to have fire hydrant rentals and street lighting, previously funded by the City's general fund, paid through surcharges on Board of Water and Light customer bills. In combination, the surcharge for the average homeowner should amount to about \$46 per year -- less than one dollar a week. This method of funding these vital services will allow the City to make strategic investments and offset a portion of the historic loss of revenue sharing and property tax revenues. The increase in BWL charges will also be offset by an anticipated reduction in property taxes of \$45 next year for a home with a market value of \$100,000.

Road funding in Michigan is woefully inadequate, and these measures also enable the city to invest \$1.3 million in critical road repairs it would not have otherwise been able to fund. In combination with \$1.8

million in revenues from the police, fire and roads millage, \$3.1 million will be used to improve our road infrastructure. This past winter has been very tough on our roads, as evidenced by the number and severity of potholes. This necessary but costly investment benefits the city not just today, but tomorrow in terms of slowing road deterioration.

Other highlights of the budget include:

Internal Reorganizations:

- To provide enhanced efficiencies, parking enforcement will be moved from the Parking Services Office to the Police Department.
- The City's code enforcement activities will be merged in the Fire Department Fire Marshall's Office. This move will allowed for greater enforcement capabilities.
- The creation of a Department of Information Technology and internal service fund, with the addition of a Cabinet-level Chief Information Officer (CIO). This change in organization and funding mechanism recognizes the importance of information technology in virtually every aspect of city government, both in terms of internal functions and service delivery to residents.
- The City and the Board of Water and Light will work toward a joint purchasing agreement. This measure will enhance the City's purchasing function, affected by staffing downsizing, and will enhance efficiencies for a function both organizations provide.
- The City's pension administrative functions are proposed to be charged to the City's pension funds, rather than the City's general fund. Rather than adding a burden to the pension systems, the proposal is to fund pension administrative support using a funding mechanism outside of the pension system's main assets.

Recommendations Affecting Employees

The City has been working with its employees during these difficult times, and their contributions over the past several years have been significant and important. We continue, however, to face challenges in both healthcare and pensions. As affirmed by the Financial Health Team report, the City, like most other communities, has significant long-term liabilities for pensions and healthcare.

This next fiscal year, the majority of employees will fall within the state-mandated "hard cap" that limits the amount the city can contribute to healthcare. The City, employees, and unions have been working toward a consolidated healthcare plan that falls below the hard cap requirements and helps address the City's health care challenges. Employees belonging to the Fraternal Order of Police (FOP) do not yet fall under the hard cap requirement. However, as we continue to face challenges in those areas, changes to healthcare are needed. Next year, a grant that pays for eleven police officers will end. Concessions in healthcare are needed so that funds set aside from this year's police millage allocation can be used for officer funding when that grant ends.

For the past few years, non-emergency personnel have been subject to reduced work hours, or "furloughs." The FY 2014 budget recommends the elimination of furloughs, returning our workforce to

a full-time schedule in order to provide the highest level of public services possible with current staffing levels.

Incorporation of Financial Health Team (FHT) Recommendations

The Mayor's FY 2014 budget recommendation incorporates a number of the Financial Health Team's recommendations. The budget, first and foremost, is a continuation of structural measures to address the challenges we face. To the extent that measures were not incorporated into the budget, they will be assessed for the future.

The Financial Health Team strongly recommends increasing our investment in the prefunding of retiree health care and in building the City's general fund reserves. These are also the goals of the Administration. Next year, the City will need to provide a \$1.4 million subsidy to the City's Tax Increment Finance Authority (TIFA), due to declines in property values and the removal of several state office buildings from the tax rolls. The City is working to refinance the underlying debt to the TIFA; however, doing so requires state legislative action. If the refinancing is approved, it is the Administration's intent that the \$1.4M will be split evenly between building up the City's rainy day fund and prefunding retiree healthcare.

The Financial Health Team recommended reductions in City funding for human services and parks and recreation activities. These measures need to be more fully assessed, as they have the potential to impact some of the most basic and necessary needs in our community. Granted, human services is a function not normally provided at the municipal level; however, during these challenging economic times, funding of human services by other entities, especially the state, have been curtailed.

This budget recommendation, while requesting concessions and organizational changes within Police and Fire, does not reduce Police or Fire staffing, as recommended by the FHT.

The Financial Health Team also recommended a number of measures that will require further assessment, study, and regional partnerships. While important, they extend beyond the City's ability to address the FY 2014 budgetary challenges.

Outlook

Recent news in terms of improved property tax projections and healthcare are positive. Barring another major economic downturn, the City's property values are stabilizing. This is very good news; however, it does not preclude the need for continued reforms and restructuring in the way government services are provided. Revenues are projected to stabilize; however, due to state limitations on property tax growth, revenues are projected to grow at a slow pace, and will not keep pace with expenditure growth. In addition, the City needs to make continued investments in its long-term liabilities and infrastructure needs. This makes regional partnerships and new models of doing business all the more important going forward.

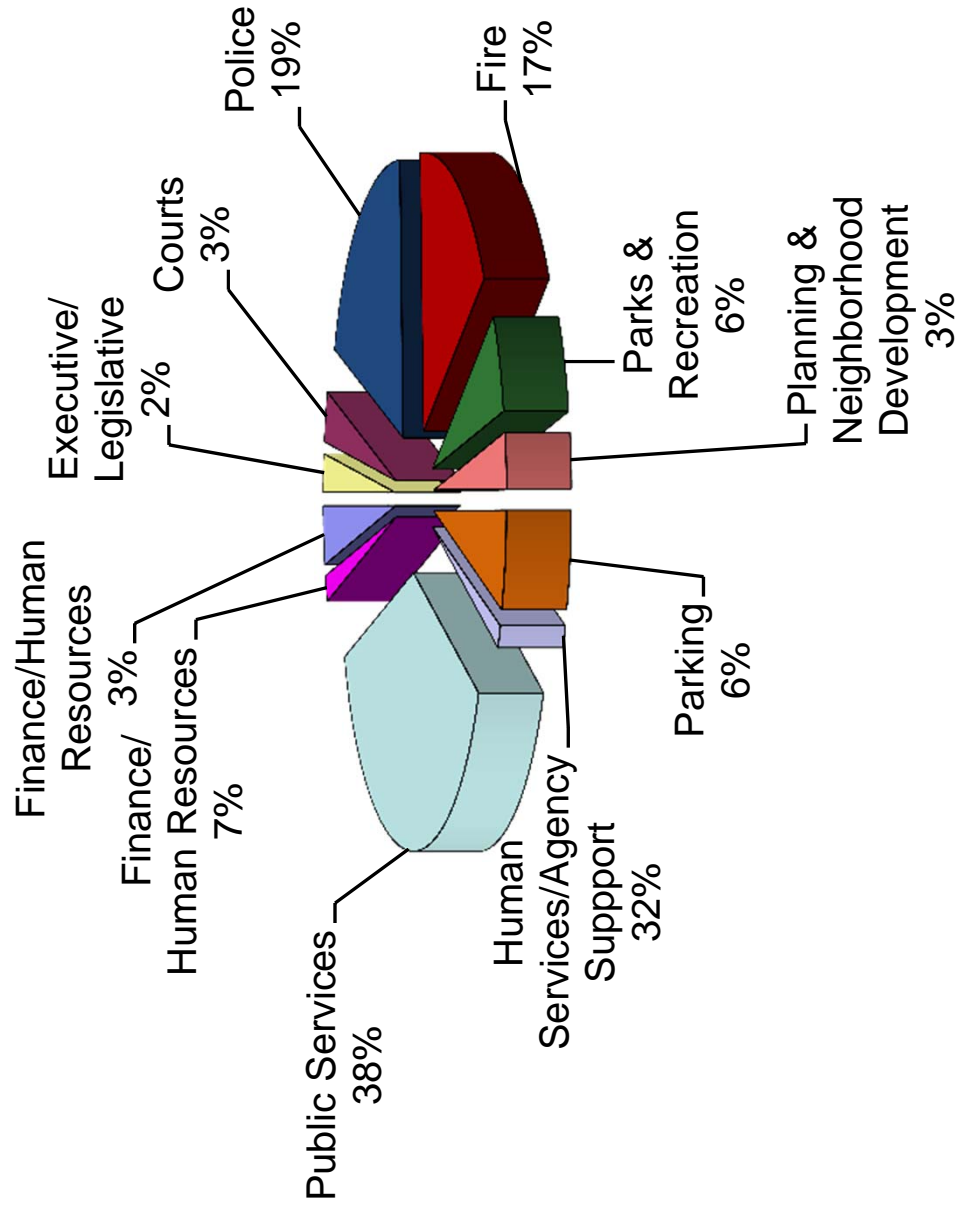
Service-Level Changes/Revenue Enhancements Enacted In Response to Declining Revenues

In response to the challenges presented by declining General Fund revenues and increasing costs of pension and healthcare, Mayor Bernero has, since coming into office in 2006, proposed and implemented many different changes in City programs, staffing, and organization, including:

- Reducing the City's workforce by 378 (31%) since FY 2006, from 1,220 to 843
- Reducing hours of work for all non-emergency personnel
- Reducing city health insurance costs by negotiating increases in employee health insurance premium sharing, healthcare plan changes, and pension contributions
- Reducing city health insurance costs for Medicare-eligible retirees
- Reducing/postponing/eliminating capital projects, including roads and streets
- Reducing minimum staffing requirements for firefighters
- Reducing police overtime by reorganizing work schedules
- Closing 3 fire stations and eliminating associated costs
- Closing Waverly and Red Cedar Golf courses
- Closing Miller Road Senior Community Center
- Closing Washington Ice Dome and Scott House
- Consolidating functions within the City (grounds maintenance, engineering, fleet maintenance)
- Consolidating functions with other governments (911, dive team)
- Entering into cooperative agreements with other governments (police and fire training, purchasing, economic development)
- Expanding mutual aid agreements and shared services studies with adjoining municipalities
- Transferring management of Sycamore Driving Range and Fenner Nature Center to non-profits
- Eliminating leased space by consolidating police Patrol and Investigations Divisions
- Increasing fees
- Implementing new technology to improve efficiency (including cash receipting, code compliance, financial system upgrades, payroll system, computerized traffic ticket system, E-filing for income taxes)
- Increasing income tax compliance efforts (over \$3M in additional uncollected revenue since February, 2007)
- Implementing energy efficiency measures in city buildings
- Implementing new restrictions on overtime, travel and hiring
- Instituting a voter-approved 4.0 mill property tax increase to mitigate further reductions to police, fire and road services

During this time, the City has maintained its focus on preserving and improving its economic base. The Mayor's economic team has worked tirelessly to retain and expand jobs, bringing income tax and property tax revenue into the City.

Fiscal Year 2013/2014 City-Wide Budget **\$191,494,000**



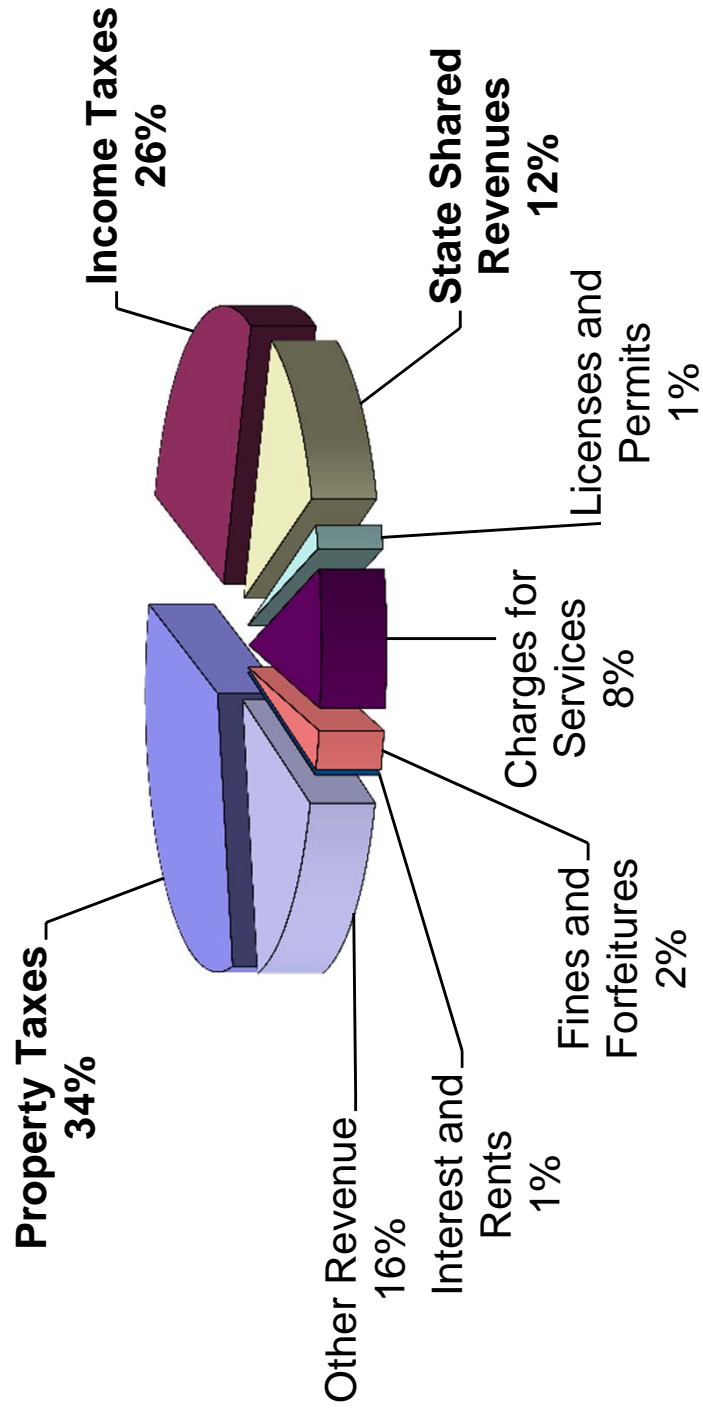
FY 2013/2014 City-Wide Budget by Department/Service Type

<u>Department</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>	<u>Percent of Total Budget</u>
<u>General Government</u>				
City Council	628,900	-	628,900	
Internal Auditor	184,460	-	184,460	
Mayor's Office	792,470	-	792,470	
Office of Community Media	334,250	-	334,250	
City Attorney's Office	1,452,640	-	1,452,640	
City Clerk	880,400	-	880,400	
Courts	5,608,490	-	5,608,490	
Finance	4,895,100	-	4,895,100	
Human Resources	1,612,670	-	1,612,670	
Capital Improvements	1,100,000	-	1,100,000	
Library Building Rental	155,000	-	155,000	
Debt Service	1,392,220	244,975	1,637,255	
Subtotal - General Government	19,036,600	244,975	19,281,635	10.07%
<u>Public Safety</u>				
Police	35,648,150	1,135,220	36,783,370	
Fire	31,704,800	-	31,704,800	
Subtotal - Public Safety	67,352,950	1,135,220	68,488,170	35.77%
<u>Recreation & Culture</u>				
Parks & Recreation - General Fund	7,048,750	-	7,048,750	
Parks Capital Improvements	300,000	300,000	600,000	
Parks - Golf	521,000	411,400	932,400	
Parks - Cemeteries	451,400	262,400	713,800	
LEPFA/Stadium	1,618,780	390,000	2,008,780	
Subtotal - Recreation & Culture	9,939,930	1,363,800	11,303,730	5.90%
<u>Community Development</u>				
Planning & Neighborhood Development	989,450	4,526,435	5,515,885	
Economic Development Corporation	50,000	-	50,000	
Downtown Lansing Incorporated	60,470	623,710	684,180	
Human Relations & Community Services Dept.	869,910	-	869,910	
Human Services	1,395,000	-	1,395,000	
City Supported Agencies	331,400	-	331,400	
Tax Increment Financing District	1,400,000	-	1,400,000	
Subtotal - Community Development	5,096,230	5,150,145	8,846,375	4.62%
<u>Public Services</u>				
Public Services	5,742,090	-	5,742,090	
Public Services - Roads	3,812,200	14,796,700	18,608,900	
Public Services - Sewer	-	43,055,700	43,055,700	
Public Services - Refuse	-	1,667,400	1,667,400	
Public Services - Recycling	-	3,957,000	3,957,000	
Public Services - Fleet	1,620,000	-	1,620,000	
Subtotal - Public Services	11,174,290	63,476,800	73,031,090	38.14%
Parking System	-	11,143,000	11,143,000	5.82%
Vacancy Factor	(600,000)	-	(600,000)	
	112,000,000	82,513,940	191,494,000	

Note: Transfers from other funds are netted out from expenditures so as not to overstate total funding.

Where the Money Comes From

FY 2013/2014 General Fund Budgeted Revenues
\$112,000,000

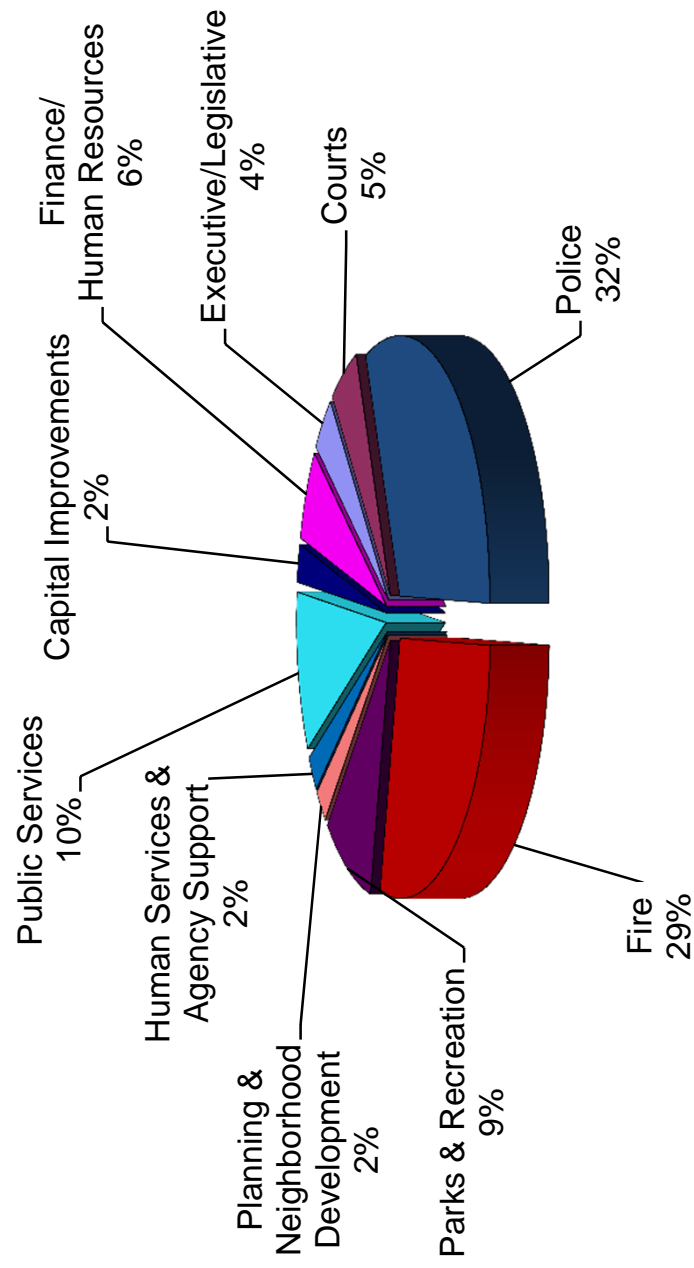


City of Lansing
Fiscal Year July 1, 2013 - June 30, 2014
General Fund Revenue (excluding use of reserves)

	FY 2012 <u>Actual</u>	FY 2013 Adopted <u>Budget</u>	FY 2013 <u>Projected</u>	FY 2014 <u>Proposed</u>	% Change FY13 Adopted FY14 Proposed
<u>Property Taxes</u>					
Non-Dedicated	31,264,329	28,473,352	27,861,037	28,117,000	-1.3%
Dedicated - Police	-	2,865,200	4,365,000	2,822,250	-1.5%
Dedicated - Fire	-	2,865,200	2,910,000	2,822,250	-1.5%
Dedicated - Roads	-	1,910,000	1,940,000	1,881,500	-1.5%
Dedicated - Parks	2,289,043	1,910,000	1,940,000	1,881,500	-1.5%
	<u>33,553,373</u>	<u>38,023,752</u>	<u>39,016,037</u>	<u>37,524,500</u>	-1.3%
Income Taxes	27,943,070	29,050,000	28,835,000	29,130,000	0.3%
<u>State Revenues</u>					
State Revenue Sharing	12,710,114	12,752,048	13,097,208	13,438,300	
Fire Reimbursement Grants	1,436,113	1,050,000	900,000	1,050,000	
Liquor License Fee	69,611	80,000	83,000	80,000	
	<u>14,215,838</u>	<u>13,882,048</u>	<u>14,080,208</u>	<u>14,568,300</u>	4.9%
<u>Licenses & Permits</u>					
Business Licenses	84,131	79,200	82,500	82,500	
Building Licenses & Permits	36,535	40,125	34,600	35,600	
Non-Business Licenses	109,239	95,265	96,600	96,600	
Cable Franchise Fees	1,318,694	1,300,000	1,350,000	1,350,000	
	<u>1,548,599</u>	<u>1,514,590</u>	<u>1,563,700</u>	<u>1,564,700</u>	3.3%
<u>Charges for Services</u>					
Reimbursements	2,950,381	2,562,500	2,546,500	2,270,000	
Appeals & Petitions	58,737	57,655	47,200	48,700	
Code Compliance	1,644,302	2,147,590	1,930,200	2,050,200	
Public Safety	3,303,166	3,900,900	3,588,037	4,027,800	
Subscriptions and Information	1,562	1,300	1,300	1,500	
Work for Others	(87,313)	130,500	(35,240)	(14,600)	
Central Stores	495	700	600	700	
Recreation Fees	576,723	528,845	599,879	616,700	
	<u>8,448,053</u>	<u>9,329,990</u>	<u>8,678,476</u>	<u>9,001,000</u>	-3.5%
Fines & Forfeitures	2,291,108	2,485,520	2,384,855	2,595,400	4.4%
<u>Interest & Rents</u>					
Interest Income	48,606	90,000	50,000	60,000	
Rental Income	-	18,000	-	-	
	<u>48,606</u>	<u>108,000</u>	<u>50,000</u>	<u>60,000</u>	-44.4%
<u>Return on Equity</u>					
Board of Water and Light	12,169,097	17,000,000	16,600,000	17,000,000	
Sewer Fund	300,000	300,000	300,000	300,000	
	<u>12,469,097</u>	<u>17,300,000</u>	<u>16,900,000</u>	<u>17,300,000</u>	0.0%
<u>Other Revenues</u>					
Sale of Fixed Assets	1,298,205	10,000	8,000	8,000	
Donations & Contributions	190,636	34,000	42,000	31,000	
Miscellaneous	144,372	127,100	110,324	132,100	
	<u>1,633,214</u>	<u>171,100</u>	<u>160,324</u>	<u>171,100</u>	0.0%
Total General Fund Revenues before Capital Fund Transfers	<u>102,150,958</u>	<u>111,865,000</u>	<u>111,668,600</u>	<u>111,915,000</u>	0.0%
Transfers from Capital Funds	48,000	65,000	65,000	85,000	30.8%
Total General Fund Revenues	<u>102,198,958</u>	<u>111,930,000</u>	<u>111,733,600</u>	<u>112,000,000</u>	0.1%

How the Money Is Spent

FY 2013/2014 General Fund Budget
\$112,000,000



City of Lansing
Fiscal Year July 1, 2013 - June 30, 2014
General Fund Summary

	FY 2012 <u>Actual</u>	FY 2013 Adopted <u>Budget</u>	FY 2013 <u>Projected</u>	FY 2014 <u>Proposed</u>	% Change FY13 Adopted FY14 Proposed
Beginning General Fund Balance	512,467	554,179	554,179	817,679	
Beginning Budget Stab. Fund Balance	4,818,020	4,818,020	4,818,020	4,818,020	
Total General Fund Reserves	<u>5,330,487</u>	<u>5,372,199</u>	<u>5,372,199</u>	<u>5,635,699</u>	
Revenues (detail on previous page)	102,198,958	111,930,000	111,733,600	112,000,000	
<u>Expenditures:</u>					
Council	535,462	592,050	510,092	628,900 ⁽¹⁾	6.2%
Internal Audit	146,946	161,692	168,066	184,460 ⁽¹⁾	14.1%
District Court	4,664,526	5,496,424	5,387,642	5,474,740 ⁽¹⁾	-0.4%
Circuit Court Building Rental	31,811	143,335	143,335	133,750 ⁽¹⁾	-6.7%
Mayor's Office	633,988	713,433	707,170	792,470 ⁽¹⁾	11.1%
Office of Community Media	244,620	300,858	298,574	334,250 ⁽¹⁾	11.1%
City Clerk's Office	807,223	906,125	880,911	880,400 ⁽¹⁾	-2.8%
Planning & Neighborhood Development	2,236,260	2,550,051	2,546,575	845,050 ⁽²⁾	-66.9%
Finance	6,588,633	7,294,841	7,093,690	4,895,100 ⁽¹⁾	-32.9%
Human Resources	1,186,216	1,437,274	1,411,086	1,612,670 ⁽¹⁾	12.2%
City Attorney's Office	1,253,205	1,422,589	1,325,266	1,452,640 ⁽¹⁾	2.1%
Police	30,626,897	33,513,551	33,460,329	35,498,150 ⁽¹⁾	5.9%
Fire	28,069,367	30,923,190	30,633,700	31,704,800 ^{(1),(2)}	2.5%
Public Service	9,031,880	9,195,779	9,117,333	5,742,090 ⁽¹⁾	-37.6%
Human Relations & Community Services	693,869	799,648	756,991	869,910 ⁽¹⁾	8.8%
Parks & Recreation	6,996,074	6,673,801	6,734,357	7,048,750 ⁽¹⁾	5.6%
Human Services	1,275,485	1,350,000	1,350,000	1,395,000 ⁽¹⁾	3.3%
Non-Departmental Expenditures:					
Library Building Rental	161,030	165,000	150,000	155,000	-6.1%
Operating Subsidies to Other Funds	3,536,860	3,164,397	3,149,397	4,396,050	38.9%
City Supported Agencies	328,243	331,400	328,925	331,400	0.0%
Capital Improvements	1,294,956	4,113,798	4,113,798	6,832,200	66.1%
Debt Service	1,813,696	1,480,764	1,202,862	1,392,220	-6.0%
Vacancy Factor	-	(800,000)	-	(600,000)	-25.0%
Total Expenditures	<u>102,157,247</u>	<u>111,930,000</u>	<u>111,470,100</u>	<u>112,000,000</u>	0.1%
Fund Balance Increase/(Decrease)	41,712	-	263,500	-	
Total Ending Reserves	<u>5,372,199</u>	<u>5,372,199</u>	<u>5,635,699</u>	<u>5,635,699</u>	4.9%
General Fund Reserves as a Percent of Revenues	5.3%	4.8%	5.0%	5.0%	

Information regarding the budget for each of the departments listed above is contained in the Department Summary section of this document.

⁽¹⁾ FY 2014 Departmental Increases are mainly the result of the allocation of information technology costs to departments, previously aggregated in the Finance Department.

⁽²⁾ Beginning FY 2014, code compliance activities, formerly reported in the Planning & Neighborhood Development department, are combined with the Fire Marshall's office in the Fire Department.